

**Before the
Public Service Commission of South Carolina**

Docket No. 2008-4-G

**Annual Review of Purchased Gas Adjustment
and Gas Purchasing Policies of
Piedmont Natural Gas Company, Incorporated**

**Testimony and Exhibits
of
Robert L. Thornton**

**On Behalf Of
Piedmont Natural Gas Company, Inc.**



June 11, 2008

1 **Q. Please state your name and business address.**

2 A. My name is Robert L. Thornton. My business address is 4720 Piedmont Row
3 Drive, Charlotte, North Carolina.

4 **Q. What is your position and what are your responsibilities with Piedmont**
5 **Natural Gas Company ("Piedmont")?**

6 A. I am employed as Director of Gas Accounting.

7 **Q. Please briefly describe your education and experience.**

8 A. I received a B.S. degree from The College of Charleston in 1984. In 1985, I
9 was employed by Duke Power Company as a staff accountant. In 1990 I was
10 employed by Ingersoll-Dresser Pump Company as Controller. In 1994, I was
11 employed by Public Service Company of North Carolina, Inc. ("PSNC"), as a
12 Senior Financial Accountant and was promoted to Director – Investor Relations
13 and Financial Projects in 1998. After PSNC was acquired by SCANA
14 Corporation, I was employed by Cox Technologies in 2000 as Controller and
15 Assistant Treasurer. In 2004, I was employed by HSBC Mortgage Corp. as
16 Manager of Regulatory and Investor Reporting. I was employed by Piedmont
17 Natural Gas Company, Inc. ("Piedmont") in 2007 as Manager of Gas
18 Accounting. I was promoted to Director of Gas Accounting in February 2008.

19 **Q. Please describe your responsibilities as Director of Gas Accounting.**

20 A. My responsibilities include: recording the cost of gas on Piedmont's books,
21 maintaining a proper match of revenues and cost of gas in Piedmont's income
22 statements, recording Piedmont's margin in accordance with regulatory
23 requirements in each of the three state jurisdictions in which Piedmont

1 operates, verifying volumes and prices on all invoices relating to the purchase
2 and transportation of natural gas, and recording gas inventory accounts and
3 deferred accounts. I am also responsible for the middle office functions related
4 to the experimental hedging program implemented in South Carolina pursuant
5 to Commission Order No. 2002-223 dated March 26, 2002.

6 **Q. Have you previously testified before this Commission or any other**
7 **regulatory authority?**

8 A. Yes. I previously testified before this Commission in Docket No. 2007-4-G
9 and I have testified before the North Carolina Utilities Commission in
10 Piedmont's most recent annual review of gas costs in Docket No. G-9, Sub
11 542.

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. The purpose of my testimony in this proceeding is to report to the Commission
14 Piedmont's end-of-period balances and accounting in its deferred accounts in
15 order to permit the Commission to determine that Piedmont's true-up
16 procedures for the review period have resulted in a properly stated cost of gas
17 and that Piedmont's gas costs are properly recorded in compliance with
18 Piedmont's Gas Cost Recovery Mechanism and Hedging Plan.

19 **Q. Before you do that, do you have any updates to provide to the Commission**
20 **regarding the beginning balance in the Company's Deferred Account No.**
21 **253.04 and to the Company's inventory balances ?**

1 A. Yes. Based on the prior difficulties in gas cost accounting experienced by
2 Piedmont, as noted in Docket No. 2007-4-G, and at the direction of the
3 Company's management, my staff continued to evaluate the gas costs recorded
4 for the periods November 2006 through March 2008 after the conclusion of
5 proceedings in Docket No. 2007-4-G in order to determine if any other
6 adjustments to the Company's financial statements were necessary to properly
7 state the Company's gas costs for that period. This process resulted in slight
8 adjustments to Piedmont's prior period gas costs and inventory balances which
9 are reflected in the beginning balance of those accounts for this review period.
10 The adjustment to the deferred account was an increase of \$34,492 in that
11 account which resulted in a revised undercollected beginning balance of
12 \$1,694,901. The adjustment to the inventory balance was a decrease of
13 \$310,863 which resulted in a revised inventory beginning balance of
14 \$83,263,963.

15 **Q. Would you please explain the basis for these adjustments?**

16 A. Yes. The increase in the deferred account undercollected balance of
17 \$34,492 is related to the following adjustments:

- 18 • \$37,553 related to Commodity True-up as a result of changes to
19 recorded dekatherms and invoice amounts.
- 20 • \$386 related to Demand True-up as a result of a change to a demand
21 invoice and changes to capacity release amounts.

- 1 • \$142 related to Secondary Market Sharing as a result of minor
- 2 adjustments to capacity release dollars in December 2006 and March
- 3 2007.
- 4 • \$13 related to the true-up of the Lost and Unaccounted For gas.
- 5 • (\$3,602) related to interest adjustments as a result of the above
- 6 changes.

7 The decrease of \$310,863 to the inventory balances is related to the
8 following adjustments:

- 9 • (\$269,042) related to Washington Storage Service (WSS), primarily
- 10 due to a supply adjustment between WSS and Transco contract
- 11 1003702, which was partially offset by changes in the average
- 12 inventory rates and the true-up of supplier invoices.
- 13 • (\$62,969) related to Hattiesburg Storage, primarily due to an
- 14 imbalance amount being incorrectly placed into Hattiesburg Storage
- 15 instead of Transco contract 1012026.
- 16 • (\$7,783) related to General Storage Service (GSS), primarily due to
- 17 system average rates resulting from the adjustments to dekatherms
- 18 and invoices.
- 19 • (\$92) related to the Carolina LNG-West Storage facility, primarily
- 20 due to the change in the system average rate.
- 21 • \$22,537 related to Eminence Storage Services (ESS), primarily due

1 to the true-up of supplier invoices and the system average rate.

- 2 • \$6,443 related to the Pine Needle LNG Storage facility, primarily
- 3 due to the true-up of supplier invoices.
- 4 • \$43 related to Columbia Gas Storage (FSS), primarily due to the
- 5 true-up of supplier invoices.

6 **Q. Has the Office of Regulatory Staff reviewed Piedmont's adjustments in**
7 **the beginning balances of its Deferred Account No. 253.04 and the**
8 **Company's inventory balances?**

9 A. Yes. The Company communicated with the ORS audit staff that changes had
10 been made to the Deferred Account No. 253.04 and the inventory balances.
11 The Company provided the ORS audit staff all the necessary revised deferred
12 account reports, inventory schedules and adjusted cost of gas files for the ORS
13 audit staff to review. The ORS audit staff reviewed the workpapers and
14 detailed supporting documentation that support the revised Deferred Account
15 No. 253.04 and the inventory balances. It is my understanding that both the
16 ORS audit staff and the Company agree with the revised undercollected
17 beginning balance of Deferred Account No. 253.04 in the amount of
18 \$1,694,901 and the revised inventory beginning balances of \$83,263,963.

19 **Q. Has the ORS reviewed Piedmont's accounting for its cost of gas for the**
20 **review period in this proceeding?**

21 A. Yes. The Commission has previously ordered Piedmont to maintain an account

1 reflecting its gas costs each month, the amount of gas costs recovered each
2 month, and amounts deferred each month. The audit staff of the ORS has
3 conducted a detailed audit and review of the review period activity in that
4 account, as well as the detailed data supporting the accounting entries to that
5 account. A summary of the review period activity in that account is attached
6 hereto as Exhibit__(RLT-1).

7 **Q. Does the Company also maintain a hedging deferred account?**

8 A. Yes. Effective April 1, 2002, Piedmont implemented an experimental natural
9 gas hedging program pursuant to Commission Order No. 2002-223. Pursuant to
10 this program, Piedmont maintains a Hedging Deferred Account in which it
11 records the results of its hedging activities undertaken in accordance with its
12 hedging plan. The audit staff of the Office of Regulatory Staff has also
13 conducted a detailed review of the activity in this account and the detailed
14 accounting data supporting that activity. A summary of the review period
15 activity in Piedmont's Hedging Deferred Account is attached hereto as
16 Exhibit__(RLT-2).

17 **Q. Does this conclude your testimony?**

18 A. Yes.

EXHIBIT__(RLT-1)

Piedmont Natural Gas Co., Inc. - South Carolina
Gas Cost Deferred Account Activity
Annual Prudence Review - Docket No. 2008-4-G
12 Months Ended March 31, 2008
Debits (Credits)

Exhibit (RLT-1)

Reporting Month ==>	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	Totals
Gas Flow Month ==>	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	
Beginning Balance	1,694,901.38	2,053,741.98	3,521,863.78	5,293,733.66	6,724,693.84	6,768,136.86	6,179,139.33	6,610,491.20	12,846,885.81	11,677,249.82	9,522,851.62	8,463,475.52	
Billed vs. Filed (Commodity) TU	415,461.24	421,340.00	501,379.81	(25,799.85)	(602,831.06)	(689,028.72)	(720,817.04)	(1,374,166.12)	(1,434,343.83)	(2,063,677.98)	81,449.42	1,001,146.63	(4,498,887.50)
Demand True-Up	705,426.00	1,182,677.00	1,393,319.00	1,595,364.00	1,371,714.00	1,459,510.00	1,491,254.00	784,519.00	(229,786.00)	(1,246,610.00)	(1,323,225.00)	(468,634.00)	6,725,528.00
Negotiated Losses	36,579.88	50,979.87	30,896.60	44,029.69	160,590.71	106,058.76	134,529.03	147,965.41	140,866.81	155,952.02	81,985.45	72,557.81	1,162,964.14
Sec Mkt Sharing (Till Nov 07)	(860,587.00)	(329,216.00)	(374,396.00)	(365,770.00)	(836,446.00)	(539,366.00)	(504,087.00)	-	-	-	-	-	(3,808,874.00)
Capacity Release Credits (From Dec 07)	-	-	-	-	-	-	-	(261,225.00)	(186,681.00)	(202,139.00)	(196,570.00)	(212,159.00)	(1,058,784.00)
SC Portion of Off System Sales Revenue	-	-	-	-	-	-	-	(3,415,383.00)	(4,772,802.00)	(7,002,314.08)	(5,782,186.15)	(8,250,102.72)	(27,222,797.95)
SC Portion of Off System Sales Costs	-	-	-	-	-	-	-	3,243,013.00	4,584,676.00	6,437,505.26	5,440,223.36	5,940,632.90	25,646,050.52
Benchmark Proration	-	-	-	-	(107,724.00)	-	-	-	-	-	-	-	(107,724.00)
WNA (includes adjustment)	3,114.07	318.43	460.36	176.18	180.80	(14.69)	11.69	430,613.89	1,010,487.65	1,832,317.46	1,072,493.46	488,708.41	4,848,867.71
Unaccounted for	-	-	-	-	-	(939,005.79)	-	-	-	-	-	-	(939,005.79)
SC - Uncollectibles	47,944.67	125,807.61	194,531.22	148,606.00	115,193.00	34,502.10	(6,733.41)	(22,169.53)	(1,303.38)	46,501.72	61,131.66	14,722.88	758,884.64
Supplier Refunds	-	-	(7.50)	(597.64)	(96,471.07)	(59,306.26)	-	(59.67)	-	-	-	(920.71)	(157,362.85)
Monthly Hedging Gain (Loss) Transfer	-	-	-	-	-	-	-	6,636,700.99	(352,060.95)	(173,687.40)	(546,975.86)	(173,624.57)	5,390,352.21
Other Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-
Ending Balance Before Interest	2,042,840.24	3,505,648.89	5,268,096.28	6,689,742.03	6,728,897.22	6,141,486.26	6,573,286.59	12,790,300.17	11,605,929.11	9,461,197.81	8,411,167.97	8,885,803.35	
Interest	10,901.75	16,214.89	25,637.38	34,951.80	39,239.64	37,653.07	37,194.60	56,585.64	71,320.71	61,653.81	52,307.56	50,602.06	494,262.81
Ending Balance (Actuals only)	2,053,741.98	3,521,863.78	5,293,733.66	6,724,693.84	6,768,136.86	6,179,139.33	6,610,491.20	12,846,885.81	11,677,249.82	9,522,851.62	8,463,475.52	8,936,405.42	
Monthly Interest Rate	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%

EXHIBIT__(RLT-2)

Piedmont Natural Gas Company, Inc. - South Carolina
Hedging Account Activity
Annual Prudence Review - Docket No. 2008-4-G
12 Months Ended March 31, 2008
Debits (Credits)

Exhibit__ (RLT-2)

	Beginning Balance	Net Options Premium	Fees 1	Margin Requirement (P&L Cash Act)	Consultant Fees	Proceeds from positions	Fees 2	Interest from brokerage acct.	Other Monthly Fee	Balance before interest	Monthly Gain / (Loss) Transfer	Return calculated	Ending Balance	Annual allowed return rate
Apr-07	\$ 3,491,414.00	-	-	-	395.25	(153,450.50)	775.00	(20.29)	59.60	3,339,173.06	NA	19,922.55	3,359,095.61	7.00%
May-07	\$ 3,359,095.61	-	-	-	366.09	(173,340.00)	837.00	(16.31)	59.60	3,187,001.99	NA	19,092.78	3,206,094.77	7.00%
Jun-07	\$ 3,206,094.77	450,250.00	5,223.50	60,985.00	395.25	-	-	(44.92)	59.60	3,722,963.20	NA	20,209.75	3,743,172.95	7.00%
Jul-07	\$ 3,743,172.95	299,580.00	3,053.50	738,746.00	395.25	34,380.00	1,054.00	(83.53)	59.60	4,820,357.77	NA	24,976.96	4,845,334.74	7.00%
Aug-07	\$ 4,845,334.74	429,720.00	4,820.50	934,251.00	395.25	226,640.00	1,612.00	(1,414.34)	59.60	6,441,418.75	NA	32,919.70	6,474,338.44	7.00%
Sep-07	\$ 6,474,338.44	560,584.00	6,401.50	(764,652.00)	395.25	-	-	(2,045.64)	59.60	6,275,081.15	NA	37,185.81	6,312,266.96	7.00%
Oct-07	\$ 6,312,266.96	147,380.00	1,658.50	(969,330.00)	790.50	-	-	(1,933.95)	59.40	5,490,891.41	NA	34,425.88	5,525,317.29	7.00%
Nov-07	\$ 5,525,317.29	249,850.00	2,201.00	859,951.00	-	-	-	(677.90)	59.60	6,636,700.99	(6,636,700.99)	-	-	7.00%
Dec-07	\$ -	214,680.00	3,208.50	(569,975.00)	395.25	-	-	(429.30)	59.60	(352,060.95)	352,060.95	-	-	7.00%
Jan-08	\$ -	114,400.00	1,038.50	(272,171.29)	790.50	(17,190.65)	527.00	(1,141.06)	59.60	(173,687.40)	173,687.40	-	-	7.00%
Feb-08	\$ -	124,920.00	418.50	(17,804.71)	-	(656,152.30)	1,612.00	(28.95)	59.60	(546,975.86)	546,975.86	-	-	7.00%
Mar-08	\$ -	244,540.00	1,074.56	-	395.25	(420,600.00)	930.00	(23.98)	59.60	(173,624.57)	173,624.57	-	-	7.00%
Activity Totals		2,835,904.00	29,098.56	0.00	4,713.84	(1,159,713.45)	7,347.00	(7,860.17)	715.00		(5,390,352.21)	188,733.43		

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached *Testimony and Exhibits of Robert L. Thornton on Behalf of Piedmont Natural Gas Company, Inc.* are being served this date via email and UPS Overnight (5 copies) upon:

Jeffrey M. Nelson
Office of Regulatory Staff
1441 Main Street
Suite 300
Columbia, South Carolina 29201
jnelson@regstaff.sc.gov

And that a copy of the attached *Testimony and Exhibits of Robert L. Thornton on Behalf of Piedmont Natural Gas Company, Inc.* are being served this date via email and U.S. Mail upon:

Jane Lewis-Raymond
Vice President & General Counsel
Piedmont Natural Gas Company, Inc.
P.O. Box 33068
Charlotte, North Carolina 28233
jane.lewis-raymond@piedmontng.com

David Carpenter
Managing Director Regulatory Affairs
Piedmont Natural Gas Company, Inc.
P.O. Box 33068
Charlotte, North Carolina 28233
david.carpenter@piedmontng.com

This the 11th day of June, 2008.

s/ James H. Jeffries IV
James H. Jeffries IV